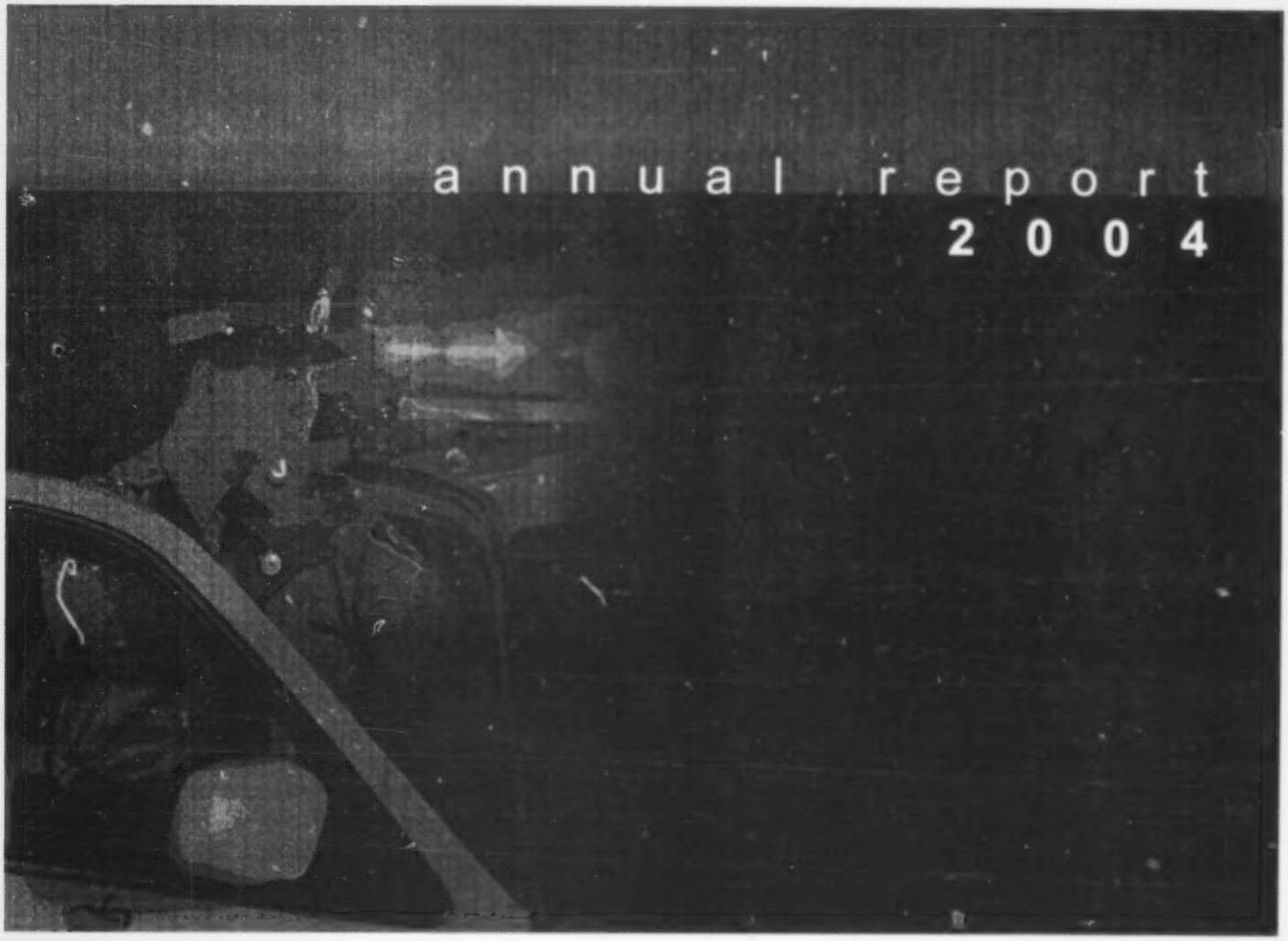

special forces

pension plan

table of contents

message from the board	2
administration report	5
investment report	7
financial statements	15
2005 directory	42
contact information	42
SFPP employers	43

message from the board

The Message from the Board and other highlights of the 2004 Annual Report will be included with a newsletter to be mailed to all members in the summer of 2005. This year, as a cost containment initiative, the Board will be mailing a printed copy of this full report only to those people who specifically request it.

investing for the future

The SFPP Fund had solid investment gains in 2004 and ended the year with an annual return of 9.5%. This follows the strong investment performance for 2003, and these recent gains have helped the SFPP Fund continue to recover somewhat from the market downturn in 2000 through 2002. We are also pleased to note that 2004 was the sixth year in a row that SFPP's rate of return has been higher than the policy benchmark, which means that our overall investment performance compares favourably to funds with a similar asset mix.

Throughout 2004, the Board has remained focused on its most important responsibility, which is to maintain the long-term security of benefits for Plan members. The Board meets at least quarterly with its Investment Manager and Investment Consultant and we continue to regularly monitor and update the *SFPP Statement of Investment Policies and Goals* (SIP&G). The Board's primary investment goal is to achieve steady and sustainable asset growth that correlates with the growth in the Plan's liabilities, and continues to meet the Plan's long-term investment target. During 2004 we conducted a detailed Asset-Liability Study to determine the asset mix that has the highest probability of meeting the Plan's long-term funding target, while reducing the risk of contribution rate increases. The overall allocation to equities remained unchanged, but certain components of the asset mix were adjusted and these changes will be implemented in 2005:

- Allocation to public equities reduced from 57% to 54%, while public fixed income was reduced from 37% to 33%.
- Assets from public equity and fixed income were transferred to private equities (3%), real estate (2%) and private income.
- Within the public fixed income allocation, a more liability-sensitive portfolio has been targeted, which will include allocations to longer term and real return bonds.

The updated SIP&G is available on the SFPP Web site.

Although the Board monitors the Plan's assets and liabilities frequently, our funding perspective is always long-term. The table to the right shows our average annual returns since the SFPP was established as a separate fund in 1993.

% Average Annual Return for the Period Ending December 31, 2004			
	1 year	4 years	8 years
Actual SFPP Return	9.5	3.2	7.1
Policy Benchmark	9.2	2.5	6.8

removal of smoothing

Prior to 2004, in order to moderate the effect of market volatility, the policy was to "smooth" the value of plan assets in actuarial funding valuations and the Plan's financial statements. Under this asset smoothing method, the Plan's actuary amortizes annual gains and losses equally over a three-year period.

Starting this year, the smoothing adjustment has been removed from the SFPP financial statements. As a result, the financial statements in this report reflect the market value of the SFPP Fund as at December 31, 2003 and 2004. Please note that the Board continues to smooth the value of SFPP assets for funding purposes.

meeting the plan's liabilities

In accordance with legislation, the Board performs an actuarial valuation of the SFPP at least once every three years. These triennial valuations show the value of the Plan's assets and liabilities on the valuation date, and the level of contributions needed to fully fund the Plan. The last SFPP funding valuation was as at December 31, 2001, and our actuary is currently working on the next triennial valuation as at December 31, 2004.

The Plan is subject to two types of funding risk: the investment income may fall short of the Plan's target rate of return (investment risk) and the cost of members' benefits may be higher than assumed (liability risk).

Currently, our long-term investment income expectation is 3.75% above inflation. With long-run inflation currently assumed to be 3.25%, our investment target is 7.0% per year. A review of the past eight years shows that, on average, the SFPP's investment returns have exceeded this target, and the policy benchmark. However, the growth in SFPP assets has not kept pace with the growth in Plan liabilities, resulting in a continuing shortfall in Plan funding.

The December 31, 2001 funding valuation showed an unfunded liability of $104 million[1], representing 9% of the SFPP's estimated liabilities as of that date. In recognition of this funding shortfall, and the economic downturn that depressed the value of the SFPP and other North American pension funds in 2001 and 2002, SFPP contribution rates were increased effective January 1, 2003. **Our contribution rates remained unchanged for 2004 and will continue to be unchanged for 2005.**

In conjunction with the December 31, 2004 funding valuation, the Board is conducting two further studies with the assistance of its actuary:

- An in-depth review of SFPP experience and demographics to test the validity of our long-term demographic assumptions.
- Consideration of a formal funding policy that would establish parameters and guidelines for the Board in setting contribution rates. The funding policy would address such things as the Plan's key funding objectives and investment policies, legislative requirements, and would balance the Board's responsibility for security of benefits with the need for contribution rate stability.

The results of the 2004 funding valuation, which will be available by mid-2005, will indicate whether or not a contribution rate increase is required.

cost-of-living adjustment

Prior to 1992, cost-of-living adjustments (COLA) were applied to SFPP benefits each January on an ad-hoc basis. In 1992, the SFPP Regulation introduced guaranteed indexing for service earned prior to 1992, at 60% of the Alberta Consumer Price Index (ACPI). For service after 1991, the SFPP Regulation continues the ad-hoc indexing, to be granted by the Board only if there are sufficient assets in the Indexing Fund.

Until January 1, 1999, the Board continued to grant COLA at the rate of 60% of the ACPI. However, the funded status of the Indexing Fund has not allowed for COLA increases on service earned in 1999 and later. Pensioners whose entire SFPP service was earned before 1999 have continued to see annual COLA adjustments to their SFPP pension equal to 60% of the ACPI. A pensioner with some SFPP service after January 1, 1999 would receive a lesser annual increase, based on the portion of his or her service that was before 1999.

[1] The SFPP liabilities shown in the financial statements are based on projections prepared by the actuary from the last available actuarial valuation. Because of differences in timing, the value of liabilities shown in the financial statements varies from the value shown in the funding valuation.

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benefit changes

For many years the SFPP has allowed employers the option of registering their Long Term Disability Insurance (LTDI) plans with the SFPP so that a disabled employee who receives LTDI benefits can continue to be treated as an active SFPP member. Six of the seven SFPP employers, representing 99% of active SFPP membership, have now adopted this approach. This means that most SFPP members would continue to build pension entitlements if they became disabled, rather than commencing an immediate disability pension. Since the primary purpose of the SFPP is to provide lifetime income to Plan members during their retirement years, the Board has recommended to the Minister of Finance that disability pensions be removed from the SFPP.

board governance

Over the last decade, the number of high profile corporate failures has resulted in a rising demand for greater transparency and public accountability of corporate and pension boards. In response, pension industry organizations have established more rigorous governance principles and best practices. The Board has taken a proactive approach in this area, and in 2004 initiated a comprehensive self assessment of Board governance. The review showed that the Board structure, safeguards and processes compare favourably to best practices. The Board looks forward to consultations with Alberta Finance in 2005 to further clarify roles and responsibilities of public sector pension boards.

enhancing communications

The Board recognizes the importance of promoting greater awareness and understanding of the SFPP among members and employers. In addition to maintaining the traditional communication tools – member handbooks, topical information sheets and newsletters – Plan members can visit the SFPP Web site at www.sfpp.ca to access up-to-date news and information about SFPP. Online information includes recent and historical investment results, the last funding Actuarial Valuation Report, annual Board reports from prior years, copies of recent presentations made to members, news from APA Corporation, and useful links.

During 2004 several Plan members participated in a pilot project to test the proposed interactive Web site **mypensionplan** which was launched in March 2005. The new site, which is accessible through the SFPP Web site, allows each member to log on with a password and view his or her personal SFPP information online – length of service, salary, contributions, and beneficiaries. Plan members can also calculate pension estimates using their actual pension account information.

While we continue to improve our communications with Plan members and employers, we would also like to hear from you. We invite you to email our Board Secretary at sfpp.bd@gov.ab.ca with your questions, comments and suggestions.

board changes

We wish to thank outgoing Board member Randy Garvey for his service to the Board over the past 6 ½ years, and to welcome Roger Rosychuk from the City of Edmonton as a new employer representative. We also thank Jim Millard for his eight years of service as Board Secretary, and wish him well in retirement. We welcome Liz Doughty as the new Board Secretary.

The Board also takes this opportunity to thank the staff of Alberta Investment Management and Alberta Pensions Administration Corporation for their continuing support and assistance with the investment and administration of the Plan.

administration report

Alberta Pensions Administration (APA) Corporation provides administrative services to SFPP under a contract with the administrator of the Plan, the Minister of Finance. The Corporation's core business is to provide benefit administration for pension plan members, pensioners and employers by paying pension benefits, collecting pension plan contributions, maintaining membership records and providing information to members, pensioners and employers. The Corporation also provides support services to the boards of the pension plans to which it provides administrative services.

technology

The Corporation conducted a pilot project for **mypensionplan**, the online service which allows members to view their personal pension information and calculate pensions, from July 1 to November 30, 2004. Overall satisfaction with **mypensionplan** was high. The service is available to all members beginning in March 2005 and is accessible from the SFPP Web site.

plan statistics

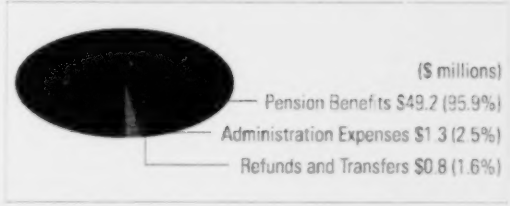
contributions

Total contributions to SFPP in 2004 were $45.6 million.

Contributions to SFPP in 2004 ($ millions)		
Employer Contributions	$22.0	48.2%
Member Contributions	$20.5	45.0%
Transfers from other Plans	$0.6	1.3%
Province of Alberta	$2.5	5.5%
Total	**$45.6**	**100%**

payments from the plan

Payments from the Plan totaled $51.3 million.



administration expenses

APA Corporation's costs are distributed amongst the public sector pension plans it serves. SFPP per member costs are based on a cost share formula, which allocates APA Corporation operating costs according to plan membership (active and deferred members and pensioners).

Total administration costs per member increased by 6% in 2004, totaling $283 per member compared to $267 per member in 2003. The breakdown of 2004 administration costs is shown in the chart to the right:

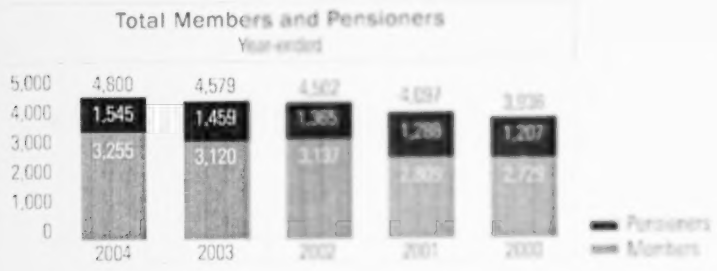
Cost per Member		
	2004 Actual	2003 Actual
APA Corporation Costs	$169	$138
New Pension Administration System*	$0	$34
Board and Plan Specific Costs	$67	$46
Investment Management Costs**	$47	$49
Total	**$283**	**$267**

* Project completed

** Does not include pooled funds management and associated custodial fees which have been included in the calculation of net investment income

members and pensioners

The SFPP serves seven employers and a total of 4,800 members and pensioners. In 2004, 246 people joined the Plan and 86 SFPP members retired.



communications

In 2004, SFPP communicated with members, pensioners and employers in the following manner:

246	*Member Welcome Packages* were sent to new members
6	Member Seminars were held in Edmonton, Calgary, Medicine Hat and Lethbridge
158	Members participated in Group Member Seminars
5,000	Copies of the *SFPP 2003 Annual Report* were printed
5,000	Copies of the *SFPP Fall 2004 Member and Pensioner Newsletter* were printed
3,023	Annual Statements were distributed
2	Editions of the employer newsletter, *Pension News*, were produced
19	Editions of the electronic employer newsletter, *Pension e-news*, were produced

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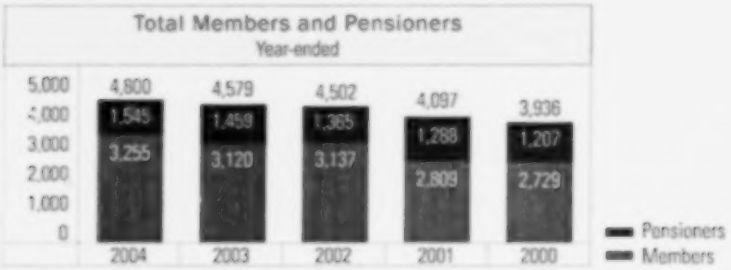

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investment report

statement of investment policies and goals

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the *SFPP Statement of Investment Policies and Goals* (SIP&G). The SIP&G is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, considering the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the SIP&G annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by Alberta Finance through its Alberta Investment Management (AIM) group. Services provided and charges for those services, including performance standards, are set out in the Memorandum of Understanding between AIM and the Board.

In 2004, the Board conducted an Asset-Liability Study. The study identified the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. In making appropriate changes to the SIP&G, the Board reviewed Fund objectives and the study's recommendations.

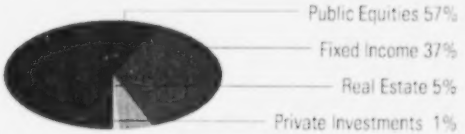
asset mix

For 2004, the SFPP policy asset allocation was structured to capture the historically higher rates of return from equities. The asset mix was weighted more to equities at 63%, followed by fixed income securities at 37%. The equities component of the asset mix was comprised of 57% public equities, 5% real estate and 1% private income.

For 2005, SFPP revised its target policy asset mix, incorporating the results of its 2004 detailed Asset-Liability Study. The new asset mix allocates 54% of total investments to public equities; 33% to fixed income securities; 7% to real estate; and 6% to private investments.

In 2004, the Board re-allocated 1% of the investment portfolio from U.S. equities to private income. Private income investments are structured to provide high current income, are a relatively illiquid asset class, and require time to build and exit investments. Private income investment opportunities could include infrastructure projects, bridge loans and corporate finance arrangements with high current income.

2004 Asset Mix Policy



2005 Asset Mix Policy
(effective March 1, 2005)

Alberta Finance, through AIM, manages the majority of SFPP's investments internally. However, in order to achieve greater diversification, the majority of equity investments are managed externally by third-party investment managers selected and managed by AIM.

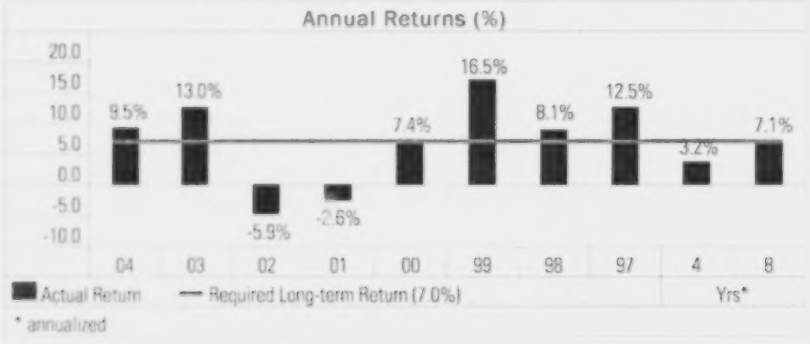
In 2004, the federal *Income Tax Act* restricted the direct ownership of foreign investments to 30% of pension plan assets. In order to optimize the Plan's asset mix and remain in compliance with the tax act, additional exposure to foreign assets is gained through forwards, futures, and swap contracts.

The table below shows the policy asset mix for the Plan compared to the actual policy asset mix for 2004 and the previous year.

	Policy Asset Mix			Actual Asset Mix	
	2005 Target	2004	2003	2004	2003
Fixed Income					
Short-term Investments	1.0%	1.0%	1.0%	0.8%	0.6%
Bonds & Mortgages	32.0%	36.0%	36.0%	35.1%	34.2%
Total Fixed Income	33.0%	37.0%	37.0%	35.9%	34.8%
Public Equities					
Canadian	18.0%	20.0%	20.0%	20.5%	21.3%
United States	18.0%	18.0%	19.0%	18.3%	18.5%
Non-North American	18.0%	19.0%	19.0%	20.2%	20.4%
	54.0%	57.0%	58.0%	59.0%	60.2%
Real Estate	7.0%	5.0%	5.0%	4.8%	5.0%
Private Equities	3.0%	-	-	-	-
Private Income	3.0%	1.0%	-	0.3%	-
Total Equities	67.0%	63.0%	63.0%	64.1%	65.2%

long-term investment objective

The long-term investment expectation for the Plan is 3.75% above the annual rate of inflation (as measured by the Canadian Consumer Price Index). With long-term inflation currently assumed at 3.25%, the required long-term average annual return is therefore 7.0%.



2004 year in review

The Canadian equity market had strong growth this year. The S&P/TSX Composite Index, which measures the performance of Canada's largest companies, reported an increase of 14.5% compared to an increase of 26.7% the previous year. Higher personal consumption, low interest rates, surging employment, strong exports, and rising disposable income contributed to the buoyant economy. The housing market in particular continued to be robust.

Oil prices increased to record levels during the year before settling down by year-end. At the beginning of the year, West Texas Intermediate (WTI) opened at $32.52 US per barrel (bbl), climbing to a record $55.17 US/bbl by late October before closing at $43.45 US/bbl by December 31, 2004.

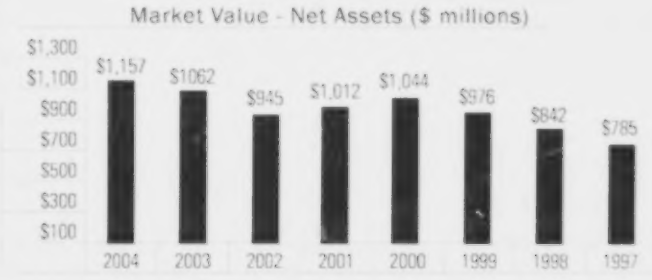
In 2004, the U.S. dollar continued its decline against the Canadian dollar. By December 31, 2004, $1.00 US purchased $1.20 Cdn compared to $1.29 Cdn at the beginning of the year. As a result, the value of the Plan's U.S. equity investments declined when translated into Canadian dollars resulting in lower investment returns.

During the year, the U.S. Federal Reserve raised interest rates five times starting from 1.0% at the beginning of the year and increasing to 2.25% by the end of 2004. In Canada, the Bank of Canada overnight rate started the year at 2.75% decreasing to 2.25% by mid-year before increasing again to 2.75% by year's end.

Equity markets in the U.S. grew at a more modest pace. While capital investment was strong, other indicators such as weaker than expected employment numbers and lower than expected consumer spending resulted in modest growth. In addition, record oil prices during the mid part of 2004 inhibited growth in the U.S. economy. The S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 10.9% over the year in U.S. dollars and 3.3% in Canadian dollars. Currency movements had a negative impact, pulling the U.S. returns down when translated into Canadian dollars.

Non-North American markets also performed well. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE Index) which measures the performance of approximately 1,000 companies on 21 stock exchanges around the world, increased by 12.7% during the year in local currency and 12.0% in Canadian dollars. Growth in demand from China continued to be strong during 2004, keeping commodity prices firm. The Japanese economy showed growth due in part from exports to China. Activity in Europe has improved somewhat, while growth in the Euro-Zone remained modest in 2004. France and Germany posted weak numbers in employment and for domestic and foreign demand.

Overall, the Plan earned a return of 9.5% in 2004 compared to 13.0% in 2003. The fair value of the Plan's net assets increased to $1,157 million, up from $1,062 million the previous year.



sfpp investment results in relation to benchmarks

The investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks, which have been established in the SIP&G. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following capital markets indices:

ScotiaCapital 91-Day T-Bill Index, ScotiaCapital Universe Bond Index, S&P/TSX Capped Composite Index, Nesbitt Burns Small Cap Index, S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, and the IPD All Property Index.

The performance of AIM is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

In 2004, the Plan's overall return of 9.5% from its investments out-performed its policy benchmark return of 9.2%. Over four years, the Plan's investments returned 3.2%, 70 basis points better than the benchmark return of 2.5%. On an eight-year period, the Plan returned 7.1%, exceeding the policy benchmark return of 6.8% by 30 basis points.

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

	Annual Returns ($ Canadian)*				Annualized Returns	
	2004 %	2003 %	2002 %	2001 %	4yr %	8yr %
Total Fund	**9.5**	**13.0**	**-5.9**	**-2.6**	**3.2**	**7.1**
Policy Return	*9.2*	*12.5*	*-6.9*	*-3.4*	*2.5*	*6.8*
Consumer Price Index	*2.1*	*2.0*	*3.9*	*0.7*	*2.2*	*2.0*
Short-term Fixed Income	**2.8**	**3.1**	**2.8**	**4.9**	**3.4**	**4.1**
SC 91-Day T-Bill Index	*2.3*	*2.9*	*2.5*	*4.7*	*3.1*	*3.8*
Fixed Income	**7.9**	**7.6**	**9.5**	**8.7**	**8.4**	**7.7**
SC Universe Bond Index	*7.1*	*6.7*	*8.7*	*8.1*	*7.7*	*7.3*
Canadian Public Equities	**15.3**	**26.3**	**-10.8**	**-7.7**	**4.6**	**9.1**
Canadian Equity Index	*14.5*	*28.7*	*-12.7*	*-12.2*	*3.1*	*7.7*
United States Public Equities	**3.6**	**8.3**	**-22.4**	**-6.7**	**-5.1**	**4.6**
U.S. Equity Index	*4.4*	*7.4*	*-23.1*	*-6.4*	*-5.2*	*6.6*
Non-North American Public Equities	**12.2**	**14.3**	**-15.9**	**-16.4**	**-2.6**	**5.3**
MSCI EAFE Index	*12.0*	*13.4*	*-16.8*	*-16.5*	*-3.1*	*3.2*
Total Foreign Equity	**7.9**	**11.3**	**-19.0**	**-11.6**	**-3.7**	**4.8**
Foreign Equity Index	*8.1*	*10.4*	*-19.9*	*-11.5*	*-4.1*	*4.9*
Real Estate	**10.6**	**10.0**	**6.2**	**8.0**	**8.7**	**10.3**
Real Estate Index	*12.9*	*8.2*	*8.6*	*10.3*	*10.0*	*12.1*
Alternative Investments	**4.5**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Alternative Investments Index	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*

** Certain comparative figures have been restated to reflect finalized results.*

The table below shows the value added by AIM in comparison to the various components of the policy benchmark.

Value Added/Lost by Manager in Comparison to Benchmarks		
	One Year %	Four Years %
Short-term Fixed Income	0.5	0.3
Bonds and Mortgages	0.8	0.7
Canadian Public Equity	0.8	1.5
U.S. Public Equity	-0.8	0.1
Non-North American Public Equity	0.2	0.5
Real Estate	-2.3	-1.3
Private Income	n/a	n/a
Total Value Added	0.3	0.7

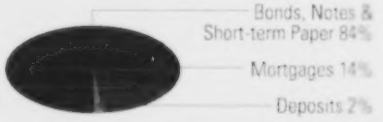
fixed income investments

Over the past year, the SC Universe Bond Index increased by 7.1% while the short-term SC 91-Day T-Bill Index increased by 2.3%.

The Plan's actual rate of return over one year from long-term Canadian securities was 7.9%, 80 basis points better than the benchmark SC Universe Bond Index. Over four years, the return from long-term securities was 8.4% or 70 basis points better than the benchmark of 7.7%. The cash and short-term component returned 2.8% in 2004, compared to the benchmark SC 91-Day T-Bill Index return of 2.3%.

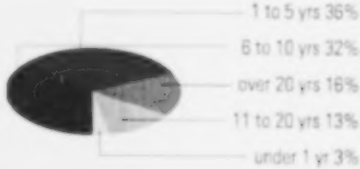
At December 31, 2004, investments in bonds, mortgages and cash totaled 35.9% of total investments or $415 million compared to 34.8% the previous year.

Summary of Fixed Income Holdings (by security type)



Summary of Fixed Income Holdings (Issued & guaranteed by)

Summary of Fixed Income Holdings (term structure)



equity investments

The following tables show the top 10 securities held in the Canadian, U.S. and non-North American public equity markets.

Top 10 Canadian Public Equity Holdings - December 31, 2004

Company	%
Manulife Financial Corporation	4.4
Bank of Nova Scotia, The	4.2
The Toronto-Dominion Bank	3.5
Encana Corporation	3.4
Royal Bank of Canada	3.2
Alcan Inc.	2.8
Petro-Canada	2.4
Bank of Montreal	2.3
Sun Life Financial Inc.	2.3
Canadian National Railway Company	2.2

Top 10 U.S. Public Equity Holdings - December 31, 2004

Company	%
General Electric Co.	2.4
Microsoft Corp.	1.9
Citigroup Inc.	1.9
Exxon Mobil Corp.	1.7
Pfizer Inc.	1.4
Wal-Mart Stores Inc.	1.4
Johnson & Johnson	1.3
Bank America Corp.	1.2
American International Group Inc.	1.2
Proctor and Gamble Co.	1.1

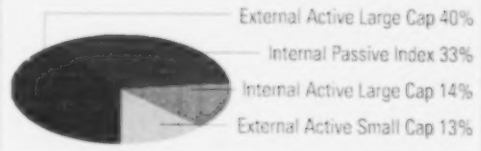
Top 10 Non-North American Public Holdings - December 31, 2004

Company	%
Total SA	2.1
Vodafone Group PLC	1.3
Royal Dutch Petroleum Co.	1.2
GlaxoSmithKline PLC	1.2
Shell Transport & Trading Co. PLC	1.1
BP PLC	1.1
Toyota Motor Corp.	1.0
Novartis AG	1.0
ENI SpA	1.0
Credit Suisse Group	1.0

canadian public equity investments

At December 31, 2004, Canadian public equities represented 20.5% of SFPP's total investments or $237 million compared to 21.3% at the end of the previous year. Canadian equities are managed through several strategies including both indexed and active mandates. AIM manages the passive product and a portion of the active large cap strategies internally, while external investment advisors actively manage the balance of the large cap strategy and the small cap active strategy. The external active large cap strategy invests in companies with large market capitalization and incorporates value, growth, and core investment styles.

Summary of Canadian Public Equity Holdings



The actual return from Canadian equity investments over the year was 15.3%, 80 basis points better than the benchmark Canadian equity index of 14.5%.

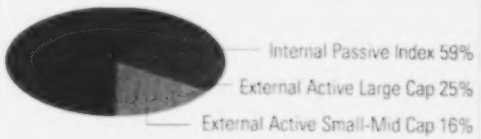
foreign equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and Emerging Markets.

u.s. public equities

At December 31, 2004, U.S. public equities comprised 18.3% of the Plan's total investments or $211 million compared to 18.5% the previous year. The U.S. equity portfolio is comprised of internally managed passive index strategies and externally managed active large cap and small-mid cap strategies. In Canadian dollars, the Plan's actual return from U.S. equity investments in 2004 was 3.6%, 80 basis points less than the benchmark of 4.4%.

Summary of United States Public Equity Holdings

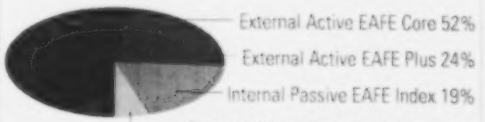


non-north american public equities

Non-North American public equities comprised 20.2% or $232 million of total Plan investments at December 31, 2004 compared to 20.4% the previous year. The Plan's non-North American equity component is comprised of an internally managed passive index strategy and externally managed active EAFE core and plus strategies and an actively managed Emerging Markets strategy.

In Canadian dollars, the Plan's actual return from non-North American equity investments in 2004 was 12.2%, 20 basis points better than the benchmark return MSCI EAFE Index of 12.0%.

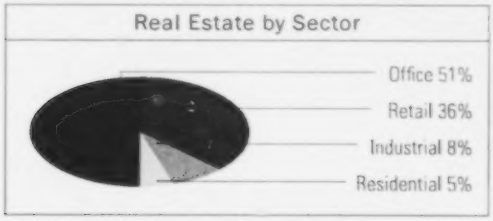
Summary of Non-North American Public Equity Holdings

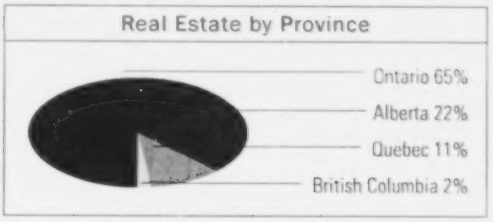

External Active EAFE Core 52%
External Active EAFE Plus 24%
Internal Passive EAFE Index 19%
External Active Emerging Markets 5%

real estate

At December 31, 2004, the Plan's real estate portfolio comprised 4.8% or $56 million of total investments compared to 5.0% the previous year. Investments are primarily in a mix of retail, office, residential and industrial properties in major Canadian urban areas including Toronto, Ottawa, Quebec, Calgary, Edmonton and Vancouver. The focus is on quality, featuring strong locations and tenants.

The 2004 Private Real Estate Pool (PREP) return of 10.6% was substantially lower than that of the IPD Large Index return of 12.9%. This shortfall was almost entirely the result of timing differences in valuations between PREP and its benchmark; in particular, all PREP retail real estate assets were valued in the first quarter of 2004, while most of the benchmark retail assets were valued at the end of 2004. As a result, PREP's reported performance does not capture the retail assets' capital gains during the last nine months of 2004. AIM anticipates that PREP's performance will make up this timing shortfall once the next valuation is completed in the first quarter of 2005.





alternative investments

At December 31, 2004, the Plan's alternative investment portfolio comprised 0.3% or $4 million of total investments. Private income investments returned 4.5% during the year.

looking forward

Investment returns over the next year are likely to be modest. Given inflation expectations, fixed income market valuations appear to provide little potential for significant capital appreciation: government bond yields are unlikely to decrease materially and credit spreads, currently at historically narrow levels, have little room for further narrowing. Corporations, which have experienced strong growth in profits, may see growth moderate in the coming year due to, amongst other things, an increased likelihood of lower economic growth, a moderation in productivity growth, and higher interest rates. These factors may also decrease the potential for capital appreciation in equity markets. No asset class presently stands out as being inexpensively valued, implying that capital market returns will likely be, at best, modest over the next six to 12 months.

2005 begins with the U.S. economy poised to grow at approximately 3.5%, which is lower than in 2004, but relatively high compared with Canada, developed Europe, and Japan. This growth, combined with measures of inflation that have been creeping higher, will likely lead the Federal Reserve Board to further increase the Federal Funds rate in 2005. Federal Funds rate increases, coupled with slightly higher inflation, will likely cause longer term interest rates to increase, although such increases will likely be modest. Credit spreads are also somewhat vulnerable as corporations, whose balance sheets are presently very strong, are likely to decline in quality, leading investors to demand a higher risk premium.

Canadian fixed income markets face similar pressures to those of the U.S.; however, the outlook for Canadian bonds is more neutral. The Canadian dollar's strong rally has adversely affected Canadian economic growth (expected to be around 2.5 to 3.0%). Canadian inflation has been benign and is forecast to be well within the Bank of Canada's target zone for 2005 (1.0 to 3.0%). These factors argue for the Bank of Canada to be less aggressive than the Federal Reserve Board in increasing interest rates. Furthermore, Canadian fixed income market valuations appear to be more consistent with underlying growth and inflation than the U.S. Consequently, any bond yield increases in Canada will likely be more modest than those experienced in the U.S.

In recent years, productivity gains, strong sales, and low interest rates have helped U.S. corporations achieve spectacular profit growth from the market trough of 2002. Canadian corporations have benefited from tremendous growth in commodity prices. Profit growth will likely moderate on both sides of the border in 2005 from high levels in 2004. In the U.S., slowing worldwide growth, a constrained consumer, and higher interest rates should act to reduce corporate earnings growth rates. The high level of the Canadian dollar and moderating commodity prices will likely have an adverse effect on profit growth rates for Canadian corporations. These diminished earnings growth rates, coupled with modestly high equity valuations, will likely lead to single-digit equity market returns in both Canada and the U.S.

For real estate, Canada's retail and industrial real estate sectors are "firing on all cylinders," according to Colliers International, who forecast a stronger real estate market in 2005. Across the country, retail markets continue to thrive, with low, single-digit vacancy rates as a result of a mix of domestic retail tenant expansion and the entry of international retailers to the Canadian marketplace. The apartment vacancy rise should subside in 2005 and 2006, as an expected increase in mortgage interest rates makes home ownership less affordable. This should give price support to residential rental assets in 2005 and beyond. Further, gradually improving office demand should bring about a slow and steady turnaround for Canada's office leasing market over the next year. The national office vacancy rate may decline by a full percentage point as a result of improving conditions in most cities. Positive local economic characteristics across the country should continue to buoy real estate performance; however, any rental rate increase could be delayed because there are still buildings with significant vacancy. Even with a gradual rise in interest rates, the strong appetite of investors to own Canadian investment real estate should continue in 2005.

risk management system

The SFPP's investment manager (AIM) is in the process of implementing a market risk management system to model and measure risks associated with investments in the Plan. The system will provide a comprehensive framework for measuring, monitoring, and managing risk to assist in the management of Plan assets. The intent of the risk system is to support the Plan in future decisions regarding investment and risk policies.

financial statements

management's responsibility for financial reporting

The Special Forces Pension Plan (Plan) financial statements and financial information in the 2004 Annual Report are the responsibility of the Minister of Finance. These responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management, the investment operation of Alberta Finance, which is responsible only for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board, and
- Alberta Pensions Administration (APA) Corporation, which is responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance.

The financial statements and information in the annual report have been approved by the Plan Board.

The financial statements have been prepared by Alberta Finance in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2004 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance, APA Corporation and Alberta Investment Management each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements.

Brian Manning
Deputy Minister of Finance

Robert Bhatia
Deputy Minister - Revenue, Alberta Finance

David Smith, CA
Chief Executive Officer
Alberta Pensions Administration Corporation

March 17, 2005

auditor's report

To the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan (the Plan) as at December 31, 2004, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2004 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

(Original signed by Fred J. Dunn, FCA)

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 18, 2005

special forces pension plan

statement of net assets available for benefits and accrued benefits

as at december 31, 2004

	2004	2003
	($ thousands)	
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$1,154,290	$1,059,607
Accounts receivable (Note 6)	2,379	2,400
	1,156,669	1,062,007
Liabilities		
Accounts payable	17	175
Net assets available for benefits	1,156,652	1,061,832
Accrued Benefits		
Actuarial value of accrued benefits		
Plan Fund	1,346,949	1,275,387
Indexing Fund	18,056	13,672
	1,365,005	1,289,059
Deficiency (Notes 12 and 13)		
Plan Fund*	(208,353)	(227,227)
Indexing Fund	-	-
	$(208,353)	**$(227,227)**

* The deficiency of the Plan Fund is comprised of a pre-1992 deficiency of $150,355,000 (2003 $164,709,000) and a post-1991 deficiency of $57,998,000 (2003 $62,518,000).

See accompanying notes and schedules.

special forces pension plan

statement of changes in net assets available for benefits

for the year ended december 31, 2004

	2004			2003
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 9)	$99,180	$1,419	$100,599	$121,981
Contributions (Note 8)	42,594	2,965	45,559	42,209
	141,774	4,384	146,158	164,190
Decrease in assets				
Pension benefits	49,201	-	49,201	45,509
Refunds and transfers	811	-	811	486
Administration expenses (Note 10)	1,326	-	1,326	1,196
	51,338	-	51,338	47,191
Increase in net assets	90,436	4,384	94,820	116,999
Net assets available for benefits at beginning of year	1,048,160	13,672	1,061,832	944,833
Net assets available for benefits at end of year	**$1,138,596**	**$18,056**	**$1,156,652**	**$1,061,832**

See accompanying notes and schedules.

special forces pension plan

statement of changes in accrued benefits

for the year ended december 31, 2004

	2004			2003
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$54,686	$34,087	$88,773	$83,628
Benefits earned	327	35,012	35,339	32,696
Cost-of-living indexing adjustments and interest	(2,216)	4,062	1,846	8,052
	52,797	73,161	125,958	124,376
Decrease in accrued benefits				
Benefits, transfers and interest	41,324	8,688	50,012	45,995
Net increase in accrued benefits	11,473	64,473	75,946	78,381
Accrued benefits at beginning of year	801,377	487,682	1,289,059	1,210,678
Accrued benefits at end of year (Note 7)	**$812,850**	**$ 552,155**	**$1,365,005**	**$1,289,059**

See accompanying notes and schedules.

special forces pension plan

statement of changes in deficiency
for the year ended december 31, 2004

	2004			2003
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Deficiency of beginning of year (Notes 12 and 13)	$(164,709)	$(62,518)	$(227,227)	$(265,845)
Increase in net assets available for benefits	25,827	68,993	94,820	116,999
Net increase in accrued benefits	(11,473)	(64,473)	(75,946)	(78,381)
Deficiency at end of year (Notes 12 and 13)	**$(150,355)**	**$(57,998)**	**$(208,353)**	**$(227,227)**

See accompanying notes and schedules.

special forces pension plan

notes to the financial statements

december 31, 2004

note 1 - summary description of the plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375.

(b) Funding Policy

Plan Fund

Current service costs and the Plan's actuarial deficiency in respect of service after 1991 are funded by employers and employees contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2004 were unchanged at 9.61% of pensionable salary for employers and 8.51% for employees. The rates are reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2004 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund

Benefit payment increases are funded by post-1991 cost-of-living adjustments (COLA) (see Note 1(i)) which are funded by contributions to the Indexing Fund from employers and employees. The rates in effect at December 31, 2004 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years. Members are entitled to a pension at retirement who have attained age 65, or have attained age 55 and have at least five years of service, or have at least 25 years of service. Pensions will be reduced at the age of 65 by 0.6% of the average Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) times years of pensionable service. The YMPE is averaged over the same five-year period as the average salary.

note 1 - summary description of the plan (continued)

(c) Retirement Benefits (continued)
For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, with 65% continuing to the pension partner if he or she survives the member.

For a member who did not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits
Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits
Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits
Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee
Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers
All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)
Cost-of-living adjustments for service before 1992 payable by the Plan Fund are increased each year by 60% of the average of the increases in the Alberta Consumer Price Index during the twelve-month period ending on October 31st of the previous year. Cost-of-living adjustments for service after 1991 are payable by the Indexing Fund at rates determined by the Board.

note 2 - summary of significant accounting policies and reporting practices

(a) Basis of Presentation
These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

note 2 - summary of significant accounting policies and reporting practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative investments including investments in private investment funds, private equities and securities with limited marketability is estimated by Alberta Finance or external managers appointed by Alberta Finance using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

note 2 - summary of significant accounting policies and reporting practices (continued)

(e) Valuation of Derivative Contracts (continued)

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits.

note 3 - investments (schedules a to e)

	2004 Fair Value ($ thousands)	%	2003 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$8,803	0.8	$6,713	0.6
Canadian Dollar Public Bond Pool (b)	346,426	30.0	307,380	29.0
Private Mortgage Pool (c)	59,298	5.1	54,733	5.2
Total fixed income securities	414,527	35.9	368,826	34.8
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (d)	95,328	8.3	93,139	8.8
Canadian Small Cap Equity Pool (d)	31,572	2.7	27,406	2.6
Domestic Passive Equity Pooled Fund (e)	76,780	6.6	74,959	7.1
Canadian Pooled Equities Fund (f)	32,354	2.8	27,472	2.6
Private Equity Pool (g)	1,301	0.1	1,621	0.2
	237,335	20.5	224,597	21.3
United States Equities (Schedule C)				
U.S. Passive Equity Pooled Fund (h)	113,279	9.8	109,491	10.3
External Managers				
U.S. Large Cap Equity Pool (i)	52,950	4.6	45,624	4.3
U.S. Mid/Small Cap Equity Pool (i)	33,140	2.9	30,955	2.9
S&P 500 Pooled Index Fund (h)	11,465	1.0	10,769	1.0
	210,834	18.3	196,839	18.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	119,758	10.4	112,978	10.7
EAFE Plus Equity Pool (j)	54,465	4.7	47,819	4.5
EAFE Passive Equity Pool (k)	687	0.1	15,217	1.4
Emerging Markets Equity Pool (l)	12,370	1.1	-	-
EAFE Structured Equity Pooled Fund (k)	44,646	3.9	40,225	3.8
	231,926	20.2	216,239	20.4
Alternative Investments - Equities				
Private Income Pool (m)	3,875	0.3	493	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (n)	55,793	4.8	52,613	5.0
Total equities	739,763	64.1	690,781	65.2
Total investments	**$1,154,290**	**100.0**	**$1,059,607**	**100.0**

note 3 - investments (schedules a to e) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(g) The Private Equity Pool is in the process of orderly liquidation.

(h) The U.S. Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index over a four-year period. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(i) The External Managers U.S. Large Cap Equity Pool consists of multiple portfolios and the External Managers U.S. Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the U.S. Large Cap Pool and the Russell 2500 Index for the U.S. Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australasia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency

note 3 - investments (schedules a to e) (continued)

j) (continued)
management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

(k) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) Emerging Markets Free (EMF) Index over a four-year period.

(m) The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure related projects that are structured to yield high current income.

(n) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The pool is intended to provide diversification from the securities market.

note 4 - investment risk management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established a benchmark policy asset mix of 37% fixed income instruments and 63% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

note 5 - derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2004:

	2004					2003	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	78	22	-	$204,961	$8,294	$196,640	$8,306
Cross-currency interest rate swap contact	27	28	45	84,880	(4,913)	75,614	(8,141)
Interest rate swap contracts	40	55	5	82,567	(3,325)	88,701	(4,559)
Forward foreign exchange contracts	100	-	-	27,781	111	8,526	(6)
Credit default swap contracts	18	20	62	22,967	95	3,380	(41)
Bond index swap contracts	100	-	-	6,753	131	4,951	7
Equity index futures contracts	100	-	-	4,264	484	3,128	379
				$434,173	$877	$380,940	$(4,055)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

note 6 - accounts receivable

	2004	2003
	($ thousands)	
Contributions receivable		
Employers	$1,086	$1,063
Employees	1,001	983
Province of Alberta	202	185
	2,289	2,231
Receivable from Alberta Pensions Administration Corporation	90	169
	$2,379	**$2,400**

note 7 - accrued benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2001 by Hewitt and Associates and was then extrapolated to December 31, 2004.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	December 31	
	2004 and 2003 Extrapolation	2001 Valuation
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost-of-living increase as a percent of Alberta Consumer Price Index	60	60

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

note 7 - accrued benefits (continued)

(a) Actuarial Valuation (continued)

Based on the information provided the following table summarizes the fair value of net assets, accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2004:

	2004			2003
	Pre-1992	**Post-1991**	**Total**	**Total**
	($ thousands)			
Plan Fund net assets available for benefits	$662,495	$476,101	$1,138,596	$1,048,160
Plan Fund accrued benefits	812, 850	534,099	1,346,949	1,275,387
Plan Fund Deficiency (Notes 12 and 13)	**$(150,355)**	**$(57,998)**	**$(208,353)**	**$(227,227)**

As at December 31, 2004, the Indexing Fund held investments of $18,056,000 (2003 $13,672,000) with offsetting accrued benefits of the same amount

An actuarial valuation of the Plan as at December 31, 2004 will be carried out subsequent to the completion of these financial statements as required by the *Public Sector Pension Plans Act*. Any differences between the actuarial valuation results and the extrapolation results as reported in these financial statements, including the impact of changes to the maximum pensionable salary limit as announced in the 2005 Federal Budget estimated to amount to less than $1 million, will affect the financial position of the Plan and will be accounted for as gains or losses in 2005.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2004:

		Sensitivities	
	Changes in Assumptions %	**Increase in Plan Deficiency ($ million)**	**Increase in Current Service Cost as a % of Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$79	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	30	1.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	188	2.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2001 valuation was 17.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

note 8 - contributions

	2004	2003
	($ thousands)	
Current and optional service		
Employers	$19,594	$18,387
Employees	18,089	17,051
Unfunded liability		
Employers	2,392	2,226
Employees	2,392	2,226
Province of Alberta	2,471	2,300
Transfers from other plans	621	19
	$45,559	**$42,209**

note 9 - net investment income

Net investment income is comprised of the following:

	2004	2003
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$59,387	$84,882
Interest income	30,446	26,590
Dividend income	9,274	8,547
Real estate income	2,915	2,852
Securities lending income	260	272
Pooled funds management and associated custodial fees	(1,683)	(1,162)
	$100,599	**$121,981**

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2004	2003
	($ thousands)	
Fixed Income Securities	$30,397	$24,808
Canadian Equities	31,970	47,613
Foreign Equities		
United States	7,322	15,761
Non-North American	25,309	28,778
Alternative Investments - Equities	5,483	107
Real Estate Equities	118	4,914
	$100,599	**$121,981**

note 9 - net investment income (continued)

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	9.5%	3.2%	7.1%
Policy Benchmark**	9.2%	2.5%	6.8%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

note 10 - administration expenses

	2004	2003
	($ thousands)	
General administration costs	$1,009	$951
Investment management costs	220	221
Actuarial fees	97	24
	$1,326	**$1,196**

Total administration expenses amounted to $283 per member (2003 $267 per member).

General administration costs including Plan Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 9).

note 11 - remuneration of board members

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration rates effective March 1, 2004:		
Up to 4 hours	$165	$122
4 to 8 hours	280	203
Over 8 hours	447	318

	2004	2003
During 2004, the following amounts were paid:		
Remuneration		
Chair	$7,640	$3,536
Members (5)*	28,206	14,962
Travel expenses		
Chair	9,510	673
Members (5)	28,109	17,216

* Crown representative nominated by the Government of Alberta receives no remuneration.

note 12 - funding valuation and extrapolation

The Plan's deficiency is determined on the fair value basis for accounting purposes. For funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,109 million at December 31, 2004 (2003 $1,049 million).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by an actuarial funding valuation at December 31, 2001 is financed by a special payment of 0.92% of pensionable salary shared equally between employees and employers effective January 1, 2003 and continuing 15 years from the date of valuation until December 31, 2016. The special payment is included in the rates in effect at December 31, 2004 (see Note 1(b)).

note 13 - change in accounting policy

In order to eliminate any misunderstanding about the actual financial position of the Plan, in 2004, the Board introduced a change in accounting policy and assets are now valued on the fair value basis for accounting purposes with no smoothed value reported.

As at December 31, 2004, this change in accounting policy has the effect of decreasing the Plan's deficiency by $48 million. If the change had not been made, the Plan's deficiency would have been $256 million as at December 31, 2004.

This change in accounting policy has been applied retroactively and the Plan's deficiencies at December 31, 2002 and 2003 have been restated. The effect of this change in accounting policy is to increase retroactively the Plan's deficiency by $61 million at December 31, 2002 and decrease retroactively the Plan's deficiency by $13 million at December 31, 2003.

note 14 - comparative figures

Comparative figures have been restated to be consistent with 2004 presentation.

note 15 - responsibility for financial statements

These financial statements were prepared by management and approved by the Board.

Schedule A

special forces pension plan

schedule of investments in fixed income securities

december 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$10,939	$8,397
Fixed income securities (a)		
Public		
Government of Canada, direct and guaranteed	96,516	78,051
Provincial		
Alberta, direct and guaranteed	219	235
Other, direct and guaranteed	83,774	49,464
Municipal	4,541	4,713
Corporate	129,237	142,716
Private		
Corporate	87,899	85,019
	402,186	360,198
Receivable from sale of investments and accrued investment income	4,229	3,994
Liabilities for investment purchases	(2,827)	(3,763)
	1,402	231
	$414,527	**$368,826**

(a) Fixed income securities held as at December 31, 2004 had an average effective market yield of 4.44% per annum (2003 4.79% per annum). The following term structure of these securities as at December 31, 2004 was based on principal amount.

	2004	2003
	%	
under 1 year	3	3
1 to 5 years	36	38
6 to 10 years	32	30
11 to 20 years	13	9
over 20 years	16	20
	100	**100**

Schedule B

special forces pension plan

schedule of investments in canadian equities

december 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$2,296	$2,274
Public equities (a) (b)		
Consumer discretionary	19,398	18,656
Consumer staples	11,980	10,977
Energy	41,215	31,628
Financials	68,523	62,762
Health care	4,696	5,725
Industrials	20,459	23,894
Information technology	13,759	12,670
Materials	39,931	36,550
Telecommunication services	9,679	10,096
Utilities	1,452	5,007
	231,092	217,965
Passive index	505	375
	231,597	218,340
Private Equity Pool	1,301	1,621
Receivable from sale of investments and accrued investment income	2,293	2,751
Liabilities for investment purchases	(152)	(389)
	2,141	2,362
	$237,335	**$224,597**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $54,603,000 (2003 $48,985,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

special forces pension plan

schedule of investments in united states equities

december 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$6,246	$8,279
Public equities (a) (b)		
Consumer discretionary	30,407	28,571
Consumer staples	16,964	17,595
Energy	14,566	10,720
Financials	40,759	39,026
Health care	25,494	24,040
Industrials	26,699	21,403
Information technology	29,933	32,119
Materials	8,385	6,364
Telecommunication services	5,373	5,466
Utilities	6,008	5,368
	204,588	190,672
Passive index	-	84
	204,588	190,756
Receivable from sale of investments and accrued investment income	1,476	1,412
Liabilities for investment purchases	(1,476)	(3,608)
	-	(2,196)
	$210,834	**$196,839**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $112,473,000 (2003 $107,477,000), which were used as underlying securities to support the notional amount of U.S. equity index swap contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's S&P 500 Index.

Schedule D

special forces pension plan

schedule of investments in non-north american equities

december 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$4,084	$3,671
Public equities (a) (b)		
Consumer discretionary	31,361	31,840
Consumer staples	13,109	16,661
Energy	19,091	15,699
Financials	61,455	51,669
Health care	13,733	16,881
Industrials	24,650	22,761
Information technology	10,966	12,661
Materials	17,920	15,811
Telecommunication services	19,340	18,872
Utilities	9,020	8,306
	220,645	211,161
Passive index	5,201	28
Receivable from sale of investments and accrued investment income	2,930	2,169
Liabilities for investment purchases	(934)	(790)
	1,996	1,379
	$231,926	**$216,239**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $42,149,000 (2003 $38,632,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard and Poor's.

special forces pension plan

schedule of investments in non-north american equities (continued)

december 31, 2004

(b) (continued) The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2004	2003
	($ thousands)	
United Kingdom	$49,615	$49,923
Japan	39,699	36,166
France	20,099	21,208
Germany	15,364	15,285
Switzerland	14,898	16,897
Netherlands	12,220	12,008
Australia	10,392	11,095
Italy	9,174	9,214
Sweden	5,775	4,189
Spain	5,720	5,953
Other	37,689	29,223
	$220,645	$211,161

Schedule E

special forces pension plan

schedule of investments in real estate

december 31, 2004

	Plan's Share	
	2004	2003
	($ thousands)	
Deposits and short-term securities	$6	$43
Real estate (a)		
Office	27,886	23,331
Retail	20,026	22,087
Industrial	4,398	3,567
Residential	2,703	3,089
	55,013	52,074
Passive index	695	362
Receivable from sale of investments and accrued investment income	79	134
	$55,793	**$52,613**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2004	2003
	($ thousands)	
Ontario	$35,663	$38,058
Alberta	12,196	12,948
Quebec	6,196	-
British Columbia	958	1,068
	$55,013	$52,074

2005 directory

employee nominees
Colin Catonio (Chair), Lethbridge Police Association
Ulysses Currie, Edmonton Police Association
Alex Girvin, Calgary Police Association

employer nominees
John Hamill, City of Medicine Hat
Roger Rosychuk, City of Edmonton
David Watson (Vice Chair), City of Calgary

crown nominee
Linda Sinclair

board secretary
Liz Doughty
Alberta Pensions Administration Corporation

fund management
Alberta Investment Management, Alberta Finance

investment consultant
James P. Marshall, a Hewitt Company

actuary
Hewitt Associates

auditor
Auditor General of Alberta

contact information

special forces pension plan
3rd Floor Park Plaza
10611-98 Avenue
Edmonton, AB T5K 2P7

Phone: (780) 427-5101
1-800-358-0840 (toll-free in Canada)
Fax: (780) 427-1621
Email: SFP Board: sfpp.bd@gov.ab.ca
SFPP Administration: sfpp.admin@gov.ab.ca
Web site: www.sfpp.ca

SFPP employers

Seven employers participate in the Special Forces Pension Plan. They are the Police Services of:

The City of Calgary

The City of Camrose

The City of Edmonton

The Town of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber